



VI. Office

Prior to 2002, the country's rate of employment had increased approximately 6% annually over a five-year period, which contributed to the absorption of office space developed during the same period of time. Currently, the national office market is soft as a result of the recently limited expansion and growth of businesses throughout the country. Rental rates and absorption of office space are declining in many American markets.

Northeastern Pennsylvania's employment growth rate during the same five-year period of time averaged approximately 1% annually, significantly below the national average. As a result a limited amount of new office space was developed. Like the nation as a whole, Northeastern Pennsylvania has experienced a weak demand for office space during the past few years.

As a result of the limited amount of office development, the Wilkes-Barre area has been able to absorb much of the new product brought on line and rents have remained steady, but the casualty of this positive absorption by new buildings in the suburban areas has been an increase in vacancies in urban areas, particularly in older buildings that have seen limited capital improvements over the years.

However, Northeastern Pennsylvania is positioned to become a major provider of office space to local companies that are expanding (once the national and local economies improve), as well as relocations from the larger metropolitan areas of the East Coast. The region as a whole is and has been attractive to businesses from the larger metro areas because of its northeastern central location, affordable rents and operation costs, existing infrastructure, quality of life, and cost of living. During the past decade, the Scranton–Wilkes-Barre–MSA has seen national companies such as Fleet, CIGNA, Prudential, and Met Life, as well as several local companies such as Guard Financial Group, Blue Cross of Northeastern Pennsylvania, and Penn Miller Insurance, grow their businesses and increase the office space they occupy.

Downtown Wilkes-Barre has an opportunity to capture a portion of continuing potential growth, provided that the City government, community, and local office building owners take the steps necessary to attract future users and facilitate the growth of existing local businesses.

A. MSA Overview

LPC estimates that the Scranton–Wilkes-Barre–Hazleton MSA, contains approximately 8 million square feet of office space. Approximately 4.2 million square feet are located in major multitenant office buildings. The remaining square footage is located in smaller office buildings (less than 12,000 square feet), and institution, government, and owner-occupied buildings. The bulk of LPC’s analysis focuses on multitenant office space, which most realistically indicates the health of the overall office market.

The Scranton and Wilkes-Barre multitenant office submarkets contain approximately the same amount of office space, each around 2.2 million square feet. The Scranton office space is split evenly between its downtown and suburbs. However, Wilkes-Barre’s downtown contains approximately three-quarters of Wilkes-Barre’s submarket office space. Hazleton contains approximately 360,000 square feet of multitenant space.

The MSA has experienced a decline in overall office occupancy rates during the last decade due to a high number of mergers and acquisitions, specifically in the health care, banking and financial industries. LPC estimates that the MSA’s office vacancy level during 2002 was approximately 14%. MSA submarket rents tend to be consistent geographically, ranging from an average low of \$13.00 per square foot to an average high of \$23.00 per square foot. New office space (new construction and renovated space) with ample on-site parking in the Kingston, Glenmaura and East Mountain areas command the highest rents. Office buildings there also tend to have larger floor plates (20,000+ square feet) and new mechanical systems.

The MSA has averaged approximately 75,000 square feet of office space absorption annually during the 1990s. Most growth resulted from several built-to-suit projects. The amount of speculative office space development in the MSA currently and historically has been limited. Absorption has slowed significantly during the early 2000s.

Businesses currently located within the region tend to be parochial and remain in their existing submarket when they consider increasing the amount of office space they occupy. Much of the growth experienced in the suburban markets has been the result of relocations by businesses from the downtown areas of Scranton, Wilkes-Barre and Hazleton. Recently, Downtown Wilkes-Barre has experienced a greater number of relocations from its Downtown than either Scranton or Hazleton. Table VI-A lists information on each of the companies that have moved their operations out of the Downtown during the 2000s.

Table VI-A
Recent Downtown Wilkes-Barre Relocations

<u>Company</u>	<u>Location</u>	<u>Square Foot</u>
USB Paine Webber	Plains Twp.	6,000
First Financial Group	Plains Twp.	12,500
Hourigan, Klugger & Quinn	Kingston	25,000
Dean Witter	Plains Twp.	10,000
Prudential	Scranton	<u>10,000</u>
Total:		63,500

The Focus Group discussions and interviews with businesses that relocated outside of Downtown Wilkes-Barre cited the following reasons for their decision to leave (in no particular order):

- safety concerns
- lack of lighting
- parking availability and proximity
- lack of amenities
- quality of space available
- lack of City leadership and concern with Downtown

Currently three major office space users are considering relocations outside Downtown. The total space occupied by these businesses equals approximately 75,000 square feet.

In contrast to the many moves out of Downtown, during 2001, Commonwealth Telephone Enterprises, Inc. (CTE) moved its corporate headquarters from Dallas, Pennsylvania, a suburban area located approximately 10 miles from Downtown Wilkes-Barre, into Wilkes-Barre Center located directly on Public Square. CTE currently leases approximately 65,000 square feet of space on eight floors in Wilkes-Barre Center, which has recently undergone an extensive renovation, installing fiber optics and state-of-the-art operating systems. Wilkes-Barre Center is located in a Keystone Opportunity Zone which has created a significant benefit for the company, including tax abatements for up to 12 years.

At the time of the move, CTE stated that the site offered the best space and best economics for the company, which initially brought 330 jobs to Downtown. In addition, the City of Wilkes-Barre promised to provide parking for employees in a parking structure to be built adjacent to the office building. At this time, the parking structure has not been built.



B. Downtown Wilkes-Barre Overview

Despite recent decline, Downtown Wilkes-Barre retains the largest concentration of office space in the region, with a total of approximately 4 million square feet, including government/public facility office space, office space above retail storefronts, owner-occupied office space, and multitenant buildings. Estimates indicate that over 12,000 employees work in Downtown each day.

Downtown Wilkes-Barre contains the fourth largest urban center concentration of employment in the Commonwealth of Pennsylvania. Several regional corporate headquarters are still located Downtown, and several service businesses continue to flourish and expand.



A diverse range of businesses of every category and size are currently located in the Downtown. A list of the major corporate office space users is shown in Table VI-B below.

Table VI-B
Major Downtown Corporate Office Space Users

ALLTEL Information Services, Inc.
American Red Cross
Blue Cross of Northeastern Pennsylvania
Bohlin, Cynwinski, Jackson
Citizens Bank
Citizen's Voice
Commonwealth Telephone Enterprises, Inc.

GUARD Insurance Group, Inc.
First Heritage Bank
M&T Bank
Nextar Broadcasting Group
Parente Randolph PC
Penn Millers Insurance Company

PNC Bank
Quad Three Group
Rosenn, Jenkins & Greenwald LLP
Times Leader
Verizon

Section IV of this Report detailed the major institution/public facility office space users located Downtown. The types of users and businesses located in Downtown, institutional and otherwise, are diverse, varying in size and number of employees, as shown above.

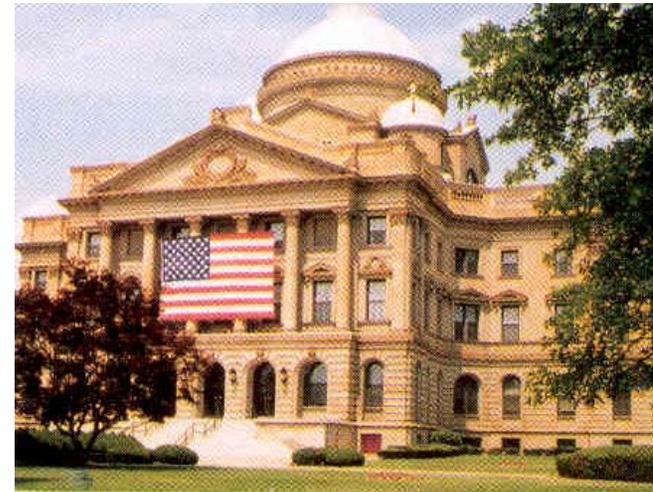
Existing Inventory

The types of office space available in Downtown Wilkes-Barre are just as diverse as the users who occupy the space. Following is a brief review of the various types of office space located in Downtown.

Government/Public Facility Office Space

Includes City and County office space, public and quasi-public office space such as the County Courthouse (shown in the photograph to the right), Kirby Health Center, and office space at Wilkes University and King's College. LPC estimates that there are approximately 1 million square feet of space in these various facilities. Approximately 3,200 employees are housed in this space.

This type of office space is an important component of Downtown and currently houses a many of Downtown's employees. As discussed, this space also attracts a significant number of visitors Downtown.



Above Retail Storefronts

LPC estimates that approximately 400,000 square feet of Downtown office space is located in upper stories above street-level retail. Much of this space has been neglected over the last decade. Approximately 31%, or 125,000 square feet, currently is vacant. However, several building owners, such as 138 South Main Street, recently have invested in capital improvements resulting in healthy occupancy rates.

This type of space will play an important part in the overall revitalization of Downtown by providing less expensive space for smaller service-oriented users and start-up companies. Some of the space may possibly be converted to housing.



Owner-Occupied Space

Another 650,000 square feet of Downtown office space is located in owner-occupied buildings of more than 12,000 square feet. Examples of owner-occupied buildings include the Guard Center, Blue Cross of Northeastern Pennsylvania, First Heritage Bank, Penn Millers Insurance, Quad Three Group, Nextar Broadcasting, Citizen's Voice, Times Leader, and Verizon.

Most of this space is fully occupied by the owner, and several of the owning companies indicated that they anticipate a need for additional space in the near future. Several have the ability to expand the footprint of their buildings on their existing property. However, if footprint expansion is to occur at any of these sites, a major issue to be overcome is that of parking requirements.



Multitenant Office Space

Approximately 1.68 million square feet of office space is located in 30 multitenant buildings with a total square footage of 12,000 or more. Examples of these buildings include the Citizen's Bank Center, Wilkes-Barre Center, Two Public Square, and the Stegmaier Complex. There are a few multitenant buildings below 12,000 square feet that exist throughout Downtown that were not included in this analysis. Additional information on multitenant office space follows.



Multitenant Office Analysis

LPC reviewed several previously completed studies and analyses relating to the office market in Downtown. The most recent comprehensive study was completed during 1992 by the Greater Wilkes-Barre Chamber of Business & Industry. The Chamber's study included 15 multitenant buildings located Downtown. The Chamber's findings are summarized below.

During 1992, Downtown Wilkes-Barre had 864,855 square feet of office space located in the fifteen buildings surveyed, of which 74,715 square feet were vacant. Rents were at a high of \$15.00 per square foot, triple net. At that time only one office building in Downtown provided parking as part of its lease arrangements. During 1992, the total vacancy level in the Downtown office market was 8.6%, which was considerably lower than the 18.4% vacancy rate for non-Downtown office space located in the suburbs. Vacant spaces within Downtown buildings ranged from 150 square feet to 12,000, with most vacancies less than 6,000 square feet.

At that time, the lack of vacant square feet in Downtown (and non-Downtown areas) in excess of 10,000 square feet indicates a market niche for businesses requiring more than 10,000 square feet of contiguous space. As a result, several build-to-suits were completed in the market during the 1990s. According to the Wilkes-Barre Committee for Economic Growth (CEG), they placed businesses into 307,013 square feet of office space, or an average of 61,000 square feet annually between 1986 and 1991.

The Chamber's information was updated during 1999. The survey was expanded to include the entire Greater Wilkes-Barre office market of 3.86 million square feet. A vacancy of 575,492 square feet, or approximately 15% was identified. The survey at that time included 28 multitenant office buildings located Downtown with a total of 1.63 million square feet. A Downtown vacancy of 262,239 square feet, or 16.1%, was identified.

LPC completed its survey of Downtown office space during Fall 2002. Approximately 1.68 million square feet of office space is located in 30 multitenant buildings with a total square footage of 12,000 or more. A summary of survey information is provided in Table VI-C.



**Table VI-C
Multitenant Office Analysis**

Address	Name	Total SF	Vacant SF					
			1992		1999		2002	
13 East South Street		12,000	12,000	100%	0	0%	0	0%
23 West Market Street		12,600			0	0%	4,200	33%
106-110 South Main Street		13,200			0	0%	0	0%
192 North Pennsylvania Blvd.		14,000			0	0%	0	0%
211-213 South Main Street		14,000			0	0%	9,800	70%
16 East Union Street		16,000			4,000	25%	4,000	25%
32 East Union Street	Job Center	16,000	0	0%	0	0%	0	0%
82-100 East Union Street	Thomas C. Thomas Building	17,500			0	0%	0	0%
105 North Main Street	Greco Building	18,000			0	0%	0	0%
9 East Market Street	Market Street Plaza	24,600			0	0%	0	0%
34 South Main Street	Provincial Towers	27,647	7,500	27%	7,300	26%	7,300	26%
44 West Market Street	Guard Center (M&T Bank)	34,200					0	0%
1 West Market Street	First Union Bank	38,000					0	0%
107 North River Street	Courthouse Square Towers	39,000	6,000	15%	20,000	51%	30,000	77%
197 South Washington Street		39,880					0	0%
116 South Main Street	South Main Towers	45,000	4,600	10%	20,000	44%	30,000	67%
16-22 East Union Street	Phoenix Plaza	46,000	2,900	6%	7,600	17%	22,560	49%
96 North Pennsylvania Ave.		50,000			0	0%	30,000	60%
15 South Franklin Street		50,000	1,800	4%	5,000	10%	4,800	10%
70 North Main Street	Former Blue Cross Building	58,880					58,800	100%
111 North Pennsylvania		63,000			0	0%		
100 North Wilkes-Barre Blvd.	Jewelcor Center	68,000	21,000	31%	5,500	8%	6,000	9%
65-69 Public Square	Luzerne National Bank Building	69,674	150	0%	0	0%	16,078	23%
46 Public Square	Martz Tower	70,000	0	0%	0	0%	10,000	14%
60 Public Square	ALLTEL Plaza	70,000	0	0%	1,500	2%	20,000	29%
15 Public Square	Bicentennial Building	77,860	3,145	4%	0	0%	5,900	8%
20 North Pennsylvania Ave.	Penn Place	80,000			80,000	100%		
11 West Market Street	PNC Bank Building	105,765	800	1%	14,427	14%	40,675	38%
39 Public Square	Wilkes-Barre Center	126,900	11,620	9%	61,912	49%	15,000	12%
North Wilkes-Barre Blvd.	Stegmaier Complex	140,000			20,000	14%	1,200	1%
2 Public Square	Two Public Square	141,051			0	0%	1,464	1%
8 West Market Street	Citizen's Bank Center	220,240	3,200	1%	15,000	7%	133,686	61%
			74,715		262,239		451,463	
	Vacancy:		8.6%		16.1%		26.9%	

Note: Vacancy information indicated for those buildings included in survey for that year.

Since the 1999 Chamber survey, Penn Place located at 20 North Pennsylvania Avenue was converted from a multitenant building to an owner-occupied building for the County. A few properties, including 44 West Market Street, 1 West Market Street, and 197 South Washington Street, were converted to multitenant buildings. LPC's list of multitenant buildings was adjusted to reflect the changes in the market since 1999.

The multitenant buildings range in size from 12,600 square feet (23 West Market Street) to 220,240 square feet (Citizens Bank Center). Vacancy rates during 2002 for individual buildings ranged from a low of 0% to a high of 100%. Approximately 451,463 square feet of space, or 26.9% of the total multitenant space, was vacant at the end of 2002. As shown in Table VI-D, Downtown has seen a continued erosion of occupied office space and significant increases in multitenant office space.

**Table VI-D
Multitenant Office Space Summary**

<u>Survey Year</u>	<u># of Buildings</u>	<u>Total Square Feet</u>	<u>Vacant Square Feet</u>	<u>Vacancy</u>
1992	15	864,855	74,715	8.6%
1999	28	1,629,046	262,239	16.1%
2002	30	1,675,997	451,463	26.9%

Rents in the market are quoted on both a gross and triple net (NNN) basis. The multitenant rents during 2002 ranged from a low \$7.50 gross to a high \$18.00 NNN. The last available complete survey of rents was completed by the Chamber during the 1992 Survey. Rents during that period of time ranged from a low of \$6.50 gross to a high of \$15.00 NNN. Downtown thus has seen only a minimal increase in rents over the ten-year period between 1992 and 2002.

As during 1992 and 1999, Downtown still lacks large blocks of quality, contiguous office space (20,000+ square feet). This has been an obstacle for current businesses trying to expand and major users seeking Downtown locations. Wilkes-Barre Center had a large block of space available prior to the CTE relocation.

Review of Existing Building Stock

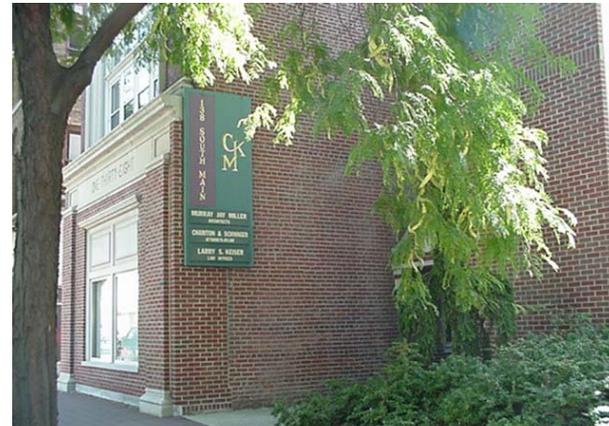
LPC conducted a review of Downtown's owner-occupied, above-retail, and 29 multitenant buildings' physical condition and ability to meet user and investment criteria. Most businesses today are seeking office buildings that meet their physical space needs including significant technical requirements. Larger users are looking for contiguous space on one level.

Although a few multitenant office buildings have seen an infusion of capital improvements since 2000, (138 South Main Street, pictured at right, and Wilkes-Barre Center, for example), most located Downtown have not. A significant number of buildings have deferred maintenance issues, and in many cases would be considered undesirable for today's typical office tenant.

However, most of the owner-occupied buildings have been updated and maintained. Several of these buildings would be considered the best office buildings located Downtown.

Another issue of concern is the size of floor plates in many of Downtown office buildings. Several multitenant buildings have floor plates less than 10,000 square feet which makes it difficult to attract many corporate users. The ability to house corporate function for communication reasons on one floor is important to many businesses today.

Proximity of parking was also identified as a concern during the focus group discussions. Many of the multitenant buildings rely on public parking provided by the City in parking lots and parking structures, pictured to the right. The lack of availability, safety and quality of parking was identified as a concern.



New Office Projects

LPC identified two major office-related projects proposed for Downtown. Although several other Downtown office projects or sites have been discussed recently, only the two that follow have been formally announced or are under construction.

Great Valley Innovation Center

The Greater Wilkes-Barre Chamber of Business & Industry recently began construction of a business “accelerator” facility intended to serve technology-based businesses, aiding in start-up and growth via a high-tech building infrastructure and the development of a close relationship with area colleges and universities. The facility is a rehabilitation of the 60,000-square-foot former Woolworth’s building, located on South Main Street. Retail space is included on the first floor and basement of the building.

Discussions have been held with several tenants who have shown interest in the facility. The project is estimated to cost \$7 million and was partially funded with an EDA grant and loans. Completion is projected for Spring 2004, with the opening happening shortly thereafter.



Wilkes-Barre Advanced Technology Business & Communications Center

Owner Thom Greco plans to renovate the former Steam Heat facility located at 129 North Washington Street into a new office complex. The renovated three-story building is currently planned to serve as a visitors’ center as well as an incubator for technology-based start-up companies, and is anticipated to create 5,100 jobs over five years. A central part of the plan is the installation of a high-speed fiber optic system through steam pipes and under curbs throughout a 20-block city grid, linking a variety of users within the City, and ultimately connecting to points beyond Wilkes-Barre, including the planned Lehigh Valley Fiber Optics Greenhouse. The building will serve as the central office for the network created. Implementation of the fiber optic system and Optical Broadband Packet Switched Network will require partial funding through state grants and federal tax credits. The owner identified the following funding sources for the project: \$3.5 million in state funds, \$6 million from private investors, \$1.5 million in federal funds, \$800,000 from Cisco Systems, and \$400,000 from the City. The total cost of the project is estimated at \$12 million. Construction is anticipated to begin in Fall 2003, and be completed the following year.

C. Office Space Competition and Demand

Downtown Wilkes-Barre not only competes with other parts of the MSA, such as the Glenmaura area, Downtown Scranton and Downtown Hazleton, to attract office users, but also with its own surrounding suburbs. Over the last decade the suburbs have been winning the battle to attract new office development and new tenants attracted to the region. The following is a review of the areas and/or buildings that compete with Downtown.

Waterfront Professional Park

Located in Plains Township, on North River Street at Exit 3 of the Cross Valley Expressway (US Route 309), the complex includes 63,500 total square feet. The project was developed during 2001 and has attracted several tenants from Downtown. During 2001, Paine Webber and First Financial Group relocated a combined 18,000 square feet to this facility from Downtown. Rental rates are quoted in the low \$20.00 per square foot, gross. In addition to office space, the complex includes a Waterfront Banquet and Convention Center.



East Mountain Corporate Park

Developed by the Greater Wilkes-Barre Chamber of Business & Industry during the 1990s, the office park currently is home to over a dozen businesses. Located on US Route 115 in Plains Township, it is considered the premium office development in the Wilkes-Barre market, and has attracted several service businesses from Downtown and the surrounding area. Both owner occupied and multitenant office buildings are located in this park. Occupancy has remained consistently above 90%. Rental rates range from \$16.50 to \$22.00 per square foot gross.



Highland Business Park

The Greater Wilkes-Barre Chamber of Business & Industry began development of this project in 2000. At build-out, Highland Park, located directly adjacent to the Interstate 81 - Exit 168 (formerly 46) Interchange in Wilkes-Barre Township, will accommodate approximately 3 million square feet of mixed-use commercial development.

The master plan for Highland Park includes office, hotel, retail and restaurant uses. The successful First Union Arena at Casey Plaza recently opened in Highland Park. Projects recently announced for the Park include a Wal-Mart-Supercenter, a Target-anchored shopping center, and a Hilton Garden Hotel. At the time of the study, approximately 25 acres had been designated for office-related economic development projects (new companies to area), and no speculative office development is planned for the site.



Kingston Area/West Side

Located across the Susquehanna River from Downtown, the area is home to some of the better housing communities in the region. Approximately 200,000 square feet of multitenant office space is located in the region. Recently, several businesses have relocated from Downtown into renovated large residential structures. The area has experienced increasing occupancy and rental rates during the early 2000s.

Since absorption has remained low and vacancy rates have climbed throughout the MSA, rents have been under downward pressure. Most Downtown office property owners have been reluctant to reduce their “asking price” for office space. The analysis in Table VI-E indicates the minimal difference in rental costs between a typical business occupying 15,000 square feet with 75 employees in a Downtown Class “A” building and a typical suburban Class “A” office building. As a result, Downtown office property owners will need to adjust to the rental cost and amenity demands of the current office market if they want to compete.

**Table VI-E
Average Rent Comparison Analysis**

	<u>Downtown</u>	<u>Suburb</u>
Base Rent	\$12.00	\$12.75
Operating Expenses	\$5.50	\$5.00
Parking	\$40.00/space	\$0/space
Tenant Improvement Allowance	\$15.00	\$20.00

The demand for market rate office space in Downtown is tied directly to the attractiveness of the Scranton–Wilkes-Barre–Hazleton region as a whole. As previously discussed, during the past decade the MSA has experienced a low level of net office space absorption, as a result of slow economic growth in the area. LPC believes the low rate of absorption will continue in the MSA market for the next few years. The Downtown will continue to experience the relocation of businesses to more appealing buildings in the suburbs if the existing lack of capital improvements Downtown continues.

As discussed over 750,000 square feet of multitenant and owner-occupied space was added to the market during the last decade. As land becomes less available, more expensive, and less welcoming in the suburban submarkets, Downtown has the unique opportunity to capture a large portion of future demand.

